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SUBJECT: TURKEY GSP WAIVER REVIEW

REF: STATE 69109

¶1. (SBU) Summary: Ambassador carried out reftel instructions regarding Turkey's Generalized System of Preferences (GSP) eligibility for gold jewelry with MFA U/S Apakan by phone June 27 and in person June 28. Apakan reaffirmed the positions stated in Foreign Trade Minister Tuzmen's April 8, 2008 letter to USTR Ambassador Schwab. Apakan said that removing GSP benefits from Turkish gold jewelry exports would undercut improving public perceptions of the US and of US-Turkish relations, and would adversely affect jewelry producing beneficiaries in Turkey's impoverished southeast. End Summary.

¶2. (SBU) Meeting with Apakan on June 28, Ambassador reviewed the main points of their telcon the day earlier, and he walked Apakan through the facts and arguments contained in reftel. Ambassador highlighted US concern to administer the GSP program in a consistent, rules-based way that will protect it against any WTO challenge and ensure continued Congressional support. He noted that the recommendations being considered in Washington do not envision Turkey's removal from the GSP program, as had been discussed in 2006-07. In fact, an additional product, copper cables and plaited bands, is being approved for a competitive needs limitation (CNL) waiver. We want to protect the overall program, and the jewelry CNL revocation being considered was a step to do that.

¶3. (SBU) Apakan expressed appreciation for the benefits Turkey continues to receive under GSP, for the news about copper products, and for the opportunity to comment prior to a US decision on the gold jewelry CNL. He said that Turkey's position remains as stated by Foreign Trade Minister Tuzmen to USTR Ambassador Schwab in writing on April 4. He noted key points in Tuzmen's letter.

-- Turkey has significantly improved its market access for US products and provides some of the lowest tariff rates for US industrial goods in comparison with other top ten GSP beneficiary countries. A jewelry waiver revocation would likely open the market to such suppliers as China, Hong Kong and Italy rather than the least-developed countries the GSP program would like to target more.

-- Turkish jewelry products do not compete directly with US jewelry products and provide critical inputs for American wholesalers, who often re-export Turkish items to other countries.

-- While the dollar value of Turkish jewelry exports to the US has increased, the volume has actually decreased by 17 percent over the past three years. Rising gold prices mask a decline in overall sales that should be taken into account.

¶4. (SBU) Apakan expressed concern about the impact of a jewelry CNL revocation on US-Turkish relations. Our ties and the Turkish public's perception of them have been improving.

While the dollar amount at stake is relatively small, this policy change will be viewed negatively by the Turkish public. It will be "counterproductive," and Turkey asks that the CNL waiver be continued. It was also noted that while much of gold jewelry exported to the US is produced in Istanbul, small-medium size jewelry producers in such cities of Turkey's impoverished southeast as Sanlifurfa, Kahramanmaras and Gaziantep have gained access to American market via GSP. They will be adversely affected by its revocation. This would contradict the mutually agreed interest in stimulating SME development that was discussed in the April Economic Partnership Commission meetings in Washington and would be unhelpful as the government seeks to bolster development and trade in the country's troubled southeast. Turkey asks, Apakan concluded, that the US keep GSP as it is, including with regard to Turkish exports of gold jewelry.

15. (SBU) In post's view, a CNL revocation for Turkish gold jewelry will generate substantial negative press for the US and undermine the improvements made over the last nine months in the abysmal public "approval" rating the US typically receives in Turkey. It will undercut successful work done here, and those Turks who have advocated for us, to improve US market access -- e.g., for live cattle and certain alcoholic beverages -- and to secure better IPR protections. We judge that there will be little or no specific impact on our collaboration on such foreign policy priorities as Iraq, Iran, the Middle East, energy, terrorism, etc., at least as long as the present government remains in office, and that the broader political-economic impact in Turkey will be marginal.

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WILSON